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SUBJECT: Xiamen Taiwan Scholars Concerned about Chen's Next Moves, Taiwan Investors Shifting Strategies

11. (U) Classified by Consul General Robert Goldberg, Reason 1.4 (b/d)

12. (C) Summary: A Xiamen-based scholar of cross-Strait relations told Congenoffs that mainland scholars are concerned that Chen Shui-bian might take more provocative steps after a referendum on UN membership. He questioned U.S. influence over Chen and said that China would be able to work with either Ma Ying-jeou or Frank Hsieh. In addition, cross-Strait scholars, business leaders and officials in Xiamen explained that changing policies and investment conditions would encourage more high-tech and high value-added Taiwan investment in the area while causing labor-intensive investment to move elsewhere. End summary.

Chen Shui-bian and the UN Referendum -- What Comes Next?  
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13. (C) Scholars at Xiamen University's Taiwan Research Institute (TRI) are concerned about what Taiwan President Chen Shui-bian and his Democratic Progressive Party (DPP) might do next after a proposed referendum on membership in the UN. Li Peng, Assistant Director of TRI, told Congenoffs September 7 that scholars view the UN referendum as a very serious issue. He commented that some scholars in Beijing and Shanghai believe it has touched the "red line" set by the Anti-Secession Law. Arguing that Chen is motivated by the desire to leave a political legacy, Li emphasized the period between Taiwan's March presidential election and the end of Chen's term in May as particularly dangerous. If the Kuomintang's Ma Ying-jeou wins the election, Li said, Chen might take even more provocative steps, believing that the DPP had lost because it failed to appeal to its pro-independence base. Li expressed concern that, if Hsieh wins, Chen might take additional steps to preserve his own personal legacy, noting that Chen had already been pushing Hsieh to more clearly express support for independence.

14. (C) At the time of the meeting, Li indicated that the mainland's cross-Strait scholars were focused on analyzing the exchange between Hu Jintao and President Bush at the APEC summit in Sydney. He said the Chinese government was not satisfied with the U.S. reaction to Chen's proposed UN referendum. He noted that many mainland scholars are reconsidering the U.S. government's influence on Chen Shui-bian and his administration. There is growing doubt that the U.S. can exercise adequate control over Chen; if the U.S. cannot rein Chen in, Beijing might have to abandon

working with Washington and take more decisive action on cross-Straight matters.

#### Ma and Hsieh -- Little Difference

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15. (C) Li told us that Beijing would be willing to work with either Ma Ying-jeou or Frank Hsieh. He pointed out that if Ma wins, Beijing would have fewer concerns about Taiwan independence. However, he also noted that Beijing would have difficulty with Ma's support for democratization in the mainland and his interest in building international space for Taiwan. It would also be a challenge to work directly with the president of the Republic of China within the "one-China" policy. In addition, Li speculated the DPP would push harder for independence as an opposition party and make it more difficult for Ma to proceed with further cross-Straits opening. If Hsieh were elected, Li expected him to support further economic opening, including charter flights and expansion of tourism. Emphasizing that it was too early to predict, Li said he thought Hsieh's chances looked better at the moment.

#### Investment Moving Up the Value Chain or Out of Fujian

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16. (C) During separate meetings with Congenoffs, scholars, Taiwan business leaders, and officials at Xiamen's Taiwan Affairs Office (TAO) all commented on shifting trends in Taiwan investment in the area. Huang Ruxu, the vice chair and secretary general of the Xiamen Taiwan Business Association (TBA), told us that Taiwan investors in the Xiamen area were uncertain about the future. He highlighted three factors that had caused export-oriented investors to rethink their strategies -- lower value-added

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tax (VAT) rebates, higher property taxes and higher wages. Xiamen TAO Deputy Director General Wang Mingshui dismissed the impact of the VAT reduction but indicated that land and labor shortages were making it harder for Taiwan companies to expand in Xiamen.

17. (C) Tang Yonghong, an economics professor at TRI, explained that as a result of these changing conditions, coastal areas like Xiamen would continue to see more capital- and technology-intensive investment from Taiwan. However, labor-intensive investment would tend to move to other areas with lower wages. He identified Chongqing and Chengdu as hot spots for Taiwan investment in western China and noted that some investors had moved their factories to Vietnam. TAO's Wang acknowledged that some Taiwan investors had moved elsewhere, but emphasized the trend of Taiwan firms in Xiamen shifting to higher technology and higher value-added products. He cited the example of a Taiwan investor in Xiamen who used to make frames for eyeglasses but had recently expanded production to camera lenses for cell phones. TBA's Huang told us that some companies had tried to shift their focus toward the domestic China market, but had found it difficult. He estimated that only 20 percent of those companies had been able to earn substantial profits from local sales.

#### More Taiwan Youth in Xiamen

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18. (C) The cross-Straits scholars, business leaders, and officials we met in Xiamen all mentioned the increasing number of Taiwan young people moving to the area. TAO's Wang explained that these young people were coming to find jobs, work in family-owned businesses, or study. Huang said the Taiwan Business Association had started organizing social events to help young people network and meet potential mates from Taiwan. TRI's Li commented that increasing numbers of Taiwan young people living in the mainland would change Taiwan impressions of China and

contribute to cross-Strait peace and stability. However, these activities would not advance the cause of unification in the short or medium term. He believes these students and job seekers come to China as part of the broader trend of globalization. According to Li, they see China as one option just like Japan and the United States.

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